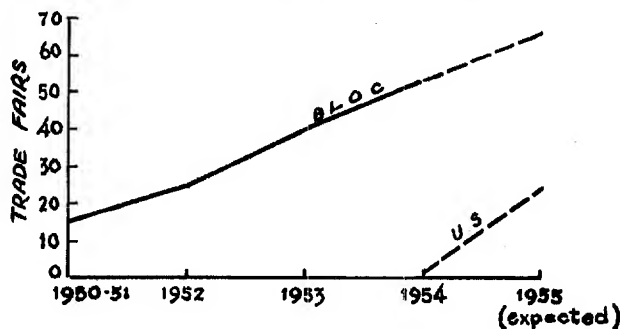


SOVIET BLOC ECONOMIC PENETRATION OF UNDERDEVELOPED COUNTRIES

I. Soviet Bloc economic penetration of underdeveloped countries has increased steadily over the past two years and can be expected to continue to increase in 1955. While the magnitude of the Bloc effort is still small in money terms and in comparison to U. S. aid to underdeveloped countries, the skill with which the Soviet program has been developed is resulting in significant political gains with relatively small economic costs. The type of assistance offered by the Bloc and the relative ease of payment have had great appeal to countries seeking to industrialize and to diversify their economies. The several methods of economic penetration by the Soviet Bloc are briefly considered below.

II. Trade Fairs have become popular as a vehicle to present "socialist progress" to the masses in underdeveloped countries. Bloc exhibitions in the Free World have climbed from a modest 15 Fairs in 1950-51 to 25 in 1952, 40 in 1953 and 53 in 1954. In 1955, it is likely that Bloc countries will participate in at least 65 Fairs. Despite Soviet statements to the contrary, Soviet and other Bloc exhibits have served more to impress the non-sophisticated visitor than to attract prospective buyers. In this field the Bloc countries have achieved a large measure of success.

US-BLOC PARTICIPATION IN
FREE WORLD TRADE FAIRS



- A. Sales of Soviet goods completed at these Fairs have been negligible. For example, Soviet sales at the Milan Fair are estimated at about one-tenth of the cost of staging the exhibits--even then sales were of customary Soviet exports such as caviar, furs, etc.

- 2 -

B. Propaganda-wise, Bloc exhibits have paid off well. USSR popular prestige has increased, and in many countries the man in the street has been convinced that USSR is a great industrial nation dedicated to improving the national welfare of the people.

1. Bloc countries have generally refused to display their products side by side with the products of other countries whereby vintage of machinery design is obvious, but have gone in for lavish national displays which convince the local population of the "abundance" of goods in the Bloc.

III. Since October 1951, the USSR has steadily increased its propaganda to the free world, stating it is prepared to offer technical assistance, plant and equipment, and credit to underdeveloped countries. Only in 1954, however, did some tangible results of these offers begin to appear. To date, Afghanistan and India are the principal recipients of such aid.

- A. Afghanistan, in 1954, accepted \$6.2 million in loans and credits from USSR for installations in the northern provinces. Construction of important gasoline storage facilities and a gasoline pipeline will offer continuing opportunities for Soviet penetration. In addition, two grain warehouses, highways, a flour mill, and a bakery are in process of construction. These projects and others currently under consideration provide ready cover for the presence of the 500-600 Soviet nationals currently reported to be in Afghanistan. Czechoslovakia concluded a \$5 million credit in 1954 for machinery and other products, and, as a result, on 14 Feb 1955 a contract was concluded for Czech construction of a \$1.5 million cement plant. During early 1955, Hungary and Rumania also made offers of economic assistance.
- B. The USSR and Satellites are giving and continuing to offer considerable aid to India.
 1. On 2 Feb 55, the USSR agreed to build a 1 million ton steel plant in Central India and to this end offered a 12-year, 2½%, \$91.4 million credit for construction.

~~SECRET~~

- 3 -

Should the Indians accept final Soviet plans to be tendered in November, the plant is to be completed by the end of 1959.

2. Contracts have been concluded or are being negotiated for a large number of plants covering a wide range of industrial activity with the USSR and Satellites.
3. Three mining engineers were sent to study layout and equipment for a diamond mine, and offered machinery and technicians in exchange for diamonds.
4. Four Soviet engineering professors were assigned to the National Institute of Physics under the UN Technical Aid Program.
5. The Bloc successfully penetrated Indian planning circles. In reaction to the Indian request for experts, the USSR sent a team of high-level economists and mathematicians, including a former GOSPLAN member, to the Indian Statistical Institute in November 1954. Poland sent one of its top economic planners, Oscar Lange. These men reportedly have taken part, on the highest levels, in the Indian planning for their forthcoming five year plan.

- C. In addition, there is a coordinated Bloc effort to increase its participation in the economies of other Free World underdeveloped countries. Negotiations for technical assistance, plant and equipment, and credit are being concluded in Burma, Indonesia, and Iceland. There are an increasing number of similar Bloc activities being initiated in numerous other underdeveloped countries. (See map)

IV. Besides direct negotiations with underdeveloped countries, the Soviets have pledged 12 million rubles (3 million dollars) to the UN Technical Assistance Administration since 1953. Though no expenditures have yet been made, the 1955 program includes projects in Chile, Ceylon, Ecuador, India and Pakistan, and will cost almost one and one-quarter

~~SECRET~~

- 4 -

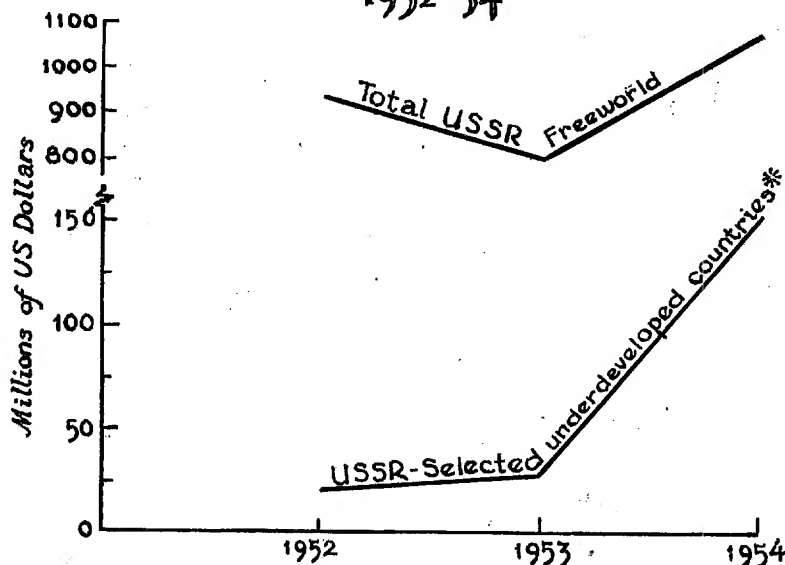
million dollars.

- A. Santiago radio reported an announcement by the Chilean representative to the UN on 22 March that Chile has accepted Russian technical aid amounting to \$200,000 through the UN Technical Assistance Fund. Presumably the Chileans will purchase medical equipment for the University of Chile and other institutes. It is interesting to note that a number of Chileans, including the President of the Chamber of Deputies, have been to the USSR during the past year and have reported favourably on the Soviet way of life.

Because of the nature of Soviet contribution, the aid can be expended only in USSR exports of goods and services or by the training of foreign nationals in the USSR. The great need for technical assistance in Free World underdeveloped countries and their keen desire for industrialization make these Soviet aid overtures through the UN very appealing.

- V. Soviet Bloc trade with the underdeveloped areas has been steadily increasing and the Bloc has exhibited a growing interest in exporting industrial equipment in exchange for primary raw materials and foodstuffs.

RECORDED USSR-FREE WORLD TRADE TURNOVER
1952-54



* ICELAND, PAKISTAN, BURMA, INDONESIA, ARGENTINA, URUGUAY, INDIA.

~~SECRET~~

- 5 -

- A. For example, in an attempt to promote lagging Soviet exports under the Argentine trade agreement, the Soviet Union is setting up an exhibit in Buenos Aires to begin in early May. A member of Soviet experts can be expected to accompany the exhibit in an attempt to overcome Argentine reluctance in purchasing Soviet capital goods. While the Bloc share of Latin American trade is currently very small, there are indications that it will continue to grow.
- B. Another example--Soviet trade turnover with Iceland has increased from virtually nothing in 1952 to over \$7 million in 1953, and over \$14.5 million in 1954. It is important to note that the USSR in 1954 exported approximately 230,000 tons of petroleum to Iceland, which represented over 70% of total Icelandic POL imports. This year Soviet petroleum exports, according to the trade agreement, will almost displace imports from other sources. The USSR has replaced the UK as Iceland's second trading partner, the US being number one. Consequently, Iceland is becoming increasingly dependent upon the capriciousness of the USSR as a buyer and a seller.
- C. The Soviet Union, dedicated to a policy of economic self-sufficiency, considers foreign trade with the non-Communist world as a transitory phenomenon and an anathema to a planned economy. It is within this autarkical concept that the development of Soviet foreign trade must be considered. For example, the vast expansion of Soviet agriculture into the new lands regardless of economic cost, will result only in agricultural products costing considerably more than the similar goods obtained through international trade. The success of the agricultural program, however, will further reduce the economic necessity for importing such goods from the underdeveloped countries of the Free World. Such a development would significantly increase the ability of the Soviet Union to utilize foreign trade as a weapon of economic penetration and to bring to bear on the governments and economies of the underdeveloped countries all the pressures concomitant with this ability.

~~SECRET~~

~~SECRET~~

SOVIET BLOC CONTRACTS AND FIRM
OFFERS FOR PLANT AND EQUIPMENT

- 6 -

Country	Loans and Credits	Installations Contracts	Installations Offers
Afghanistan	\$13.5 (millions)	Cement plant Pipeline Gasoline storage Grain processing plants Roads Sugar mills Power plants Auto assembly plant	Hydroelectric plant Oil field develop- ment in Sumatra
Indonesia	none		
India	none	Cement plant Gun powder and fuse factory Electric wire plant Tool factory	Steel plant
Iceland	none		Cement plant
Finland	\$20.0 (millions)		Oil refinery (refused)

Prepared by CIA/ORR
MP - 120
12 April 1955

~~SECRET~~

SOVIET BLOC ECONOMIC PENETRATION US-SOVIET BLOC PARTICIPATION IN INTERNATIONAL TRADE FAIRS AND EXHIBITIONS DURING 1955

SECRET